

## Message Text

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C O N F I D E N T I A L LIMA 2617

LIMDIS

E.O. 11652: GDS  
TAGS: EFIN EGEN PE  
SUBJ: PRESIDENT MORALES BERMUDEZ PLANS NEW ECONOMIC MEASURES

REF: LIMA 2500

1. INTERNATIONAL STEERING COMMITTEE BANKERS WHO MET WITH PRESIDENT MORALES BERMUDEZ ON AFTERNOON MARCH 27 HAVE INFORMED US THAT PRESIDENT IS PRESENTING EMERGENCY ECONOMIC MEASURES TO COUNCIL OF MINISTERS TODAY (MARCH 28) AND HOPES TO HAVE NEW PROGRAM ANNOUNCED BY NEXT WEEK AT THE LATEST. MEASURES WILL INCLUDE INCREASE IN GASOLINE PRICE AND SEVERE NEW CUTS IN PUBLIC SECTOR EXPENDITURES (REPORTEDLY 30 BILLION SOLES IN CENTRAL GOVERNMENT AND 31 BILLION SOLES IN PARASTATAL AGENCIES). MORALES BERMUDEZ WAS LESS CLEAR ON HOW EXCHANGE RATE DIFFICULTIES WITH IMF WILL BE HANDLED--HE APPARENTLY STILL HAS HOPES OF MAINTAINING THE 130 RATE AS A QUOTE EQUILIBRIUM LEVEL UNQUOTE, THOUGH US BANKERS HAD THE IMPRESSION THAT HE WOULD YIELD SOMEWHAT ON THIS POINT IF THE FUND REMAINS ADAMANT THAT 130 RATE MUST GO. BANKERS ADDED THAT THEY DID EVERYTHING THEY APPROPRIATELY COULD TO ENCOURAGE PRESIDENT TO MOVE TOWARD A FREER FLOAT (ONE US BANKER HAS INFORMATION THAT IMF WOULD ACCEPT A WEEKLY CRAWLING PEG). WHILE PRESIDENT DID NOT GO INTO DETAIL WITH BANKERS ON NEW MEASURES, THE THREE U.S. BANK REPRESENTATIVES ON THE INTERNATIONAL STEERING  
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COMMITTEE (MANUFACTURERS HANOVER, WELLS FARGO, AND CITIBANK) TOLD US THAT PRESIDENT DID STATE FLATLY HE WOULD DO WHATEVER WAS NECESSARY TO BRING PERU INTO COMPLIANCE WITH THE IMF STANDBY AGREEMENT.

2. BANKERS ALSO REPORT THAT THEY RAISED ISSUE OF SOVIET MILITARY SALES ROLLOVER WITH PRESIDENT, WHO

ASSURED THEM THAT THIS PROBLEM WAS WELL ON THE WAY TO SOLUTION. HE TOLD THEM (AND AS WE REPORTED EARLIER) THAT GENERAL RICHTER PRADA WAS HEADING A MISSION TO THE USSR TO NEGOTIATE FINAL DETAILS OF MULTI-YEAR ROLLOVER. RICHTER WILL BE ACCOMPANIED BY FERNANDO REUS, DIRECTOR GENERAL OF PUBLIC CREDIT IN THE MINISTRY OF ECONOMY AND FINANCE. (REUS AND THE MINISTER OF ECONOMY AND FINANCE WERE THE ONLY PERUVIANS WITH THE PRESIDENT WHEN HE MET WITH THE STEERING COMMITTEE.)

3. COMMENT:

A. THE U.S. BANKERS WERE FAVORABLY IMPRESSED BY THE PRESIDENT'S OBVIOUS GRASP OF THE REALITIES OF THE FINANCIAL CRISIS (THERE HAD BEEN CONCERN EXPRESSED BEFORE THE MEETING THAT PERHAPS THE PRESIDENT WAS NOT WELL-INFORMED). WHILE SOME OF THE U.S. GROUP STILL THINK THAT THE PRESIDENT HAS BEEN OVER-SHIELDED, E.G. ONE BANKER BELIEVES THAT PRESIDENT HAD BEEN TOLD, INCORRECTLY, THAT IMF WAS NOT UNHAPPY WITH EXISTING EXCHANGE RATE STRUCTURE, THE CONSENSUS WAS THAT PRESIDENT IS DETERMINED TO DO HIS BEST TO GET PERU BACK INTO THE GOOD GRACES OF THE BANKS AND THE FUND. (PERU'S EXECUTIVE DIRECTOR KAFKA CAME IN FROM SOME CRITICISM DURING OUR DISCUSSIONS WITH U.S. CONFIDENTIAL

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BANKERS ON THE GROUND THAT IN HIS RECENT VISIT HERE HE DOWNPLAYED THE DEGREE OF IMF MANAGEMENT'S UNHAPPINESS WITH GOP FAILURE TO MEET STANDBY TARGETS.)

B. PRESIDENT WILL CERTAINLY FACE STRONG OPPOSITION TO HIS EMERGENCY ECONOMIC MEASURES BOTH WITHIN AND WITHOUT THE MILITARY GOVERNMENT. HE WILL HAVE A DIFFICULT TIME SELLING THE PROGRAM TO THE JUNTA AND THE COUNCIL OF MINISTERS THIS WEEK, AND IF HE SUCCEEDS WILL FACE PUBLIC CRITICISM ON PARTS OF HIS PROGRAM FROM ALL SIDES -- E.G. THE FINANCIAL COMMUNITY IS ALMOST UNIVERSALLY OPPOSED TO A FLOATING EXCHANGE RATE, AND WORKERS -- PARTICULARLY IN THE TRANSPORT SECTOR -- WILL BE VERY UNHAPPY WITH AN INCREASE IN GASOLINE PRICES. ON THE OTHER HAND, BOTH THE IMF AND INTERNATIONAL BANKING COMMUNITY HAVE BEEN WAITING FOR SOME PUBLIC EVIDENCE OF GOP DETERMINATION TO LIVE UP TO ITS AUSTERITY PROGRAM (U.S. BANKERS TELL US THAT PRIVATE ASSURANCES WILL NO LONGER SUFFICE). IT WOULD APPEAR THAT THE PRESIDENT HAS RECOGNIZED THIS FACT, AND DESPITE THE POLITICAL AND SOCIAL RISKS INVOLVED, HAS DECIDED TO EMBARK ON A

SERIES OF UNPOPULAR MEASURES IN ORDER TO MEET THE  
REQUIREMENTS FOR NECESSARY EXTERNAL ASSISTANCE.  
SHLAUDEMAM

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